



Budget Process Overview

Budget preparation allows departments the opportunity to reassess goals and objectives and the means for accomplishing them. Even though the budget may be heard by the Mayor and Council in May and adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, expenditure limit requirements, and financial capacity. It is with this "groundwork" that departmental expenditure requests are made and subsequently reviewed.

■ Impact of Biennial Budgeting

With the transition to biennial budgeting, the City's budget development process was fundamentally altered, yet many aspects of the existing process were kept in place. Functions normally occurring each year (such as the submission of department budget requests and the preparation of the Manager's recommended budget) will now occur every other year. During the "off" budget year, minimal technical adjustments may be made to the budget for items that could include employee benefits rate changes, for example, or other costs expected to significantly surpass original budgeted amounts and in aggregate exceeding the contingency budget.

■ Financial Capacity Phase

Forecasting is an integral part of our decision-making process. Both long range and short range projections are prepared. The City's Long-Range Forecast is updated annually to assess our current financial condition and future financial capacity, given our long range plans and objectives. A five year financial forecast is prepared for each major fund, projecting both expenditures and revenues. As a part of this phase, alternative scenarios are examined for their fiscal impact on each respective fund.

■ Policy/Strategy Phase

The Council's goals and directives set the tone for the development of the budget. In fact, shortly after the budget is adopted, the Council meets to identify strategic priorities, issues, and projects impacting the next fiscal year budget. The Council identifies key strategic issues that will provide the direction and framework for the budget. It is within this general framework that departments' supplemental requests are formulated. Aside from the Council's own

objectives, the departments identify and discuss their own policy issues with the City Manager.

Presentations by Budget Office staff at "budget kickoff" meetings include a discussion of citywide goals and objectives, budgeting guidelines for the operating and capital budgets, timelines, an overview of fiscal constraints, and resources available for allocation. The Budget Manual distributed at these meetings is designed to assist the departments in preparing all budget requests and forms.

■ Needs Assessment Phase

The departments have an opportunity to assess current conditions, programs, and needs. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested. During this phase, departments are encouraged to thoroughly review all programs and services, assessing their value and priority to the citizens of Tempe. Additionally, departments reassess service level standards and workload indicators. They then attempt to provide the "best fit" of resource allocation with service and workload estimates. From this process, they prepare preliminary departmental budgets.

As part of this Needs Assessment Phase, a citizen survey is conducted to solicit citizen satisfaction with City services and their perception of resource allocation or budget priorities.

■ Review/Development Phase

Within the framework of the City's financial capacity, Council and City Manager priorities and departmental needs assessments, budget requests are reviewed and a preliminary Citywide operating budget takes shape. The departments initially prepare and submit base budget work sheets reflecting allocation targets. The amount of the allocation is determined by modifying the prior year budget by historical spending patterns and then adjusting for price increases (inflation). In those years where a cutback is necessary, a second allocation is prepared requiring a departmental Budget Reduction Plan aimed at reducing a projected shortfall for the coming fiscal year.



Supplemental requests are evaluated and presented at various budget levels: (1) base budget level, (2) recommended level providing monies to implement new or expand City programs, and (3) policy level which allows additional program options.

■ **Adoption/Implementation Phase**

Prior to May 1 in a budget preparation year (Year 2 of the biennium), the City Manager submits to the Council a proposed operating budget for the next biennium commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

Even though a city may operate with a biennial budget, Arizona's local budget and finance laws still require cities and towns to adopt budgets annually. According to state statutes, tentative budget adoption must occur on or before the 3rd Monday in July each year, with final adoption taking place no less than 7 days prior to adoption of the property tax rate. Thus, the formal action by the Council is to adopt the budget for the upcoming fiscal year rather than both years of the biennium.

The property tax levy must be adopted by the 3rd Monday in August. State law requires cities and towns with property taxes to adopt their tax rates annually, even though a jurisdiction may operate on a biennial budget.

At any time during the fiscal year, the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a department, office, or agency.

Management control of the budget is maintained by conducting monthly budget performance reviews throughout the fiscal year. They are aimed at examining expenditure patterns, and recommending corrective action to be taken during the year.

Additionally, records are maintained to evaluate ongoing programs and services.

■ **Budget Roles and Responsibilities**

Every employee plays a role in budgeting—whether in its formulation, preparation, implementation, administration, or evaluation.

Ultimately, of course, the department head, through the City Manager, is accountable to the City Council for the performance of departmental personnel in meeting specific objectives within allocation resource limits.

Actual budget preparation responsibility can be identified more specifically:

1. The program **cost center manager** is responsible for (a) preparing cost estimates for the remainder of the current fiscal year; (b) projecting base budget requirements for the biennium; and (c) developing other requests that change or revise the program so that it will be more effective, efficient, productive and economical.
2. The **division head** and the **department head** are responsible for reviewing, modifying and assembling their cost center data into a departmental request package. Department heads should critically evaluate departmental objectives and prioritize requests.

The preparation of budget requests, goals and objectives should coincide with the strategic issues set forth by the Council.
3. **Internal Service Division Managers** (Fleet and Information Technology Managers) will contact each department to coordinate the initial needs assessment, cost estimates, and recommendations. Replacement equipment (i.e. vehicles, hardware/software and communication equipment) will be submitted to the budget office by the Internal Service Managers. Any new equipment required by the departments should reflect the cost estimates and recommendations from the Internal Services Managers and submitted by the departments. Final review and recommendations for hardware/software and communication equipment will be the result of evaluating priorities within the departmental budget team process.
4. The **Budget Manager and Analysts** within the Management Services Department are responsible for (a)



5. preparing short and long-range revenue and expenditure forecasts, (b) assisting departments as requested in the preparation of supplemental requests, (c) analyzing supplemental requests and presenting that analysis to the Budget Team (department directors, Management Services Director, and Deputy City Managers), and (d) reviewing the linkage between budget requests and the City's strategic issues.
5. The **Budget Team** consists of all department heads and the Deputy City Managers and is responsible for reviewing departmental operating requests within the context of a set of evaluation criteria and preparing a recommended budget for review by the City Manager.
6. The **Capital Improvement Program Executive Committee** reviews program scopes, cost estimates and funding sources of CIP requests and prepares a recommended CIP budget for review by the City Manager.
7. The **City Council** is responsible for the review of the City Manager's tentative budget and approval of a final budget.

8. **Transfers and Carryforward Appropriations**

Transfer of Appropriation

At any time during the fiscal year the Manager may transfer part or all of any unencumbered appropriation balance among programs within a department, office, or agency. Upon written request by the Manager, the Council may by ordinance transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another (**Section 5.08, City of Tempe Charter**).

Permission to Exceed Budget

In the event of an emergency, the Council may seek permission from the State Board of Tax Appeals (previously State Tax Commission) to exceed the adopted budget (**Section 5.09, City of Tempe Charter**).

Biennial Budget Carryforward Savings

With the implementation of a biennial budget, new budgetary policies have been put in place to increase department flexibility and to address unforeseen costs, particularly in the 2nd year of the biennium. According to the biennial budget policy, any unspent appropriations in Year 1 from all non-Personal Services (salaries, wages, and benefits) accounts will automatically "roll forward" to Year 2 for use in that year. Furthermore, unspent funds in Personal Services accounts may be carried into Year 2 on a case-by-case basis for non-recurring expenses, with Department Director and Management Services approval. All unspent appropriations will lapse at the end of the biennial budget period.